

India
ADD (no change)

Consensus ratings*: Buy 11 Hold 4 Sell 1

Current price:	Rs4,494
Target price:	Rs6,252
Previous target:	Rs6,252
Up/downside:	39.1%
InCred Research / Consensus:	8.7%
Reuters:	CERA.NS
Bloomberg:	CRS IN
Market cap:	US\$782m Rs58,443m
Average daily turnover:	US\$1.5m Rs114.1m
Current shares o/s:	13.0m
Free float:	45.5%

*Source: Bloomberg

Key changes in this note

- We maintain our estimates.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(7.9)	(14.2)	29.0
Relative (%)	(9.0)	(9.6)	7.8

Major shareholders	% held
Promoters	54.5
Nalanda India Equity Fund	10.0
Dsp Small Cap Fund	3.9

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Cera Sanitaryware

Steady demand trend for bathware segment

- 3Q EBITDA beat was 14% due to higher gross margin backed by price hikes. We expect higher freight rates to fare well for domestic producers like Cera.
- Demand trend for bathware products has been relatively steady versus other consumer discretionary products. FY23F outlook remains robust.
- Retain ADD rating on the stock with an unchanged TP of Rs6,252.

Revenue, PAT largely in line with estimates; margins get better

Cera Sanitaryware (Cera) reported 3QFY22 revenue/EBITDA/PAT of Rs4bn/Rs666m/Rs432m, +28%/+54%/+44.5%, respectively, yoy on a relatively weak base quarter of 3QFY21 (lost sales of ~Rs650m due to labour unrest). Revenue/PAT beat estimates by 2-6% while EBITDA beat was stronger at 14% led by higher-than-expected gross margin (54.5%, +300bp vs. estimate). Within segments, sanitaryware and faucet revenue grew 51% and 14% yoy, 16% up and 12% down vs. Incred estimates, respectively. Tile revenue stood at Rs404m, down 47% yoy, led by intentional decision of focusing on only B2C sales offering no discount and 100% cash sales. Tier-3 cities sales were at 54% and B2B (institutional) sales at 30% of total sales in 3QFY22. EBITDA margin at 16.5%, +279bp yoy/+118bp qoq, was much higher than the long-term average range of 13.5-15%.

Bathware sector seeing stable demand trend; robust outlook intact

With volatile input costs and Covid-led intermittent demand disruption seen for consumer discretionary sector, bathware product demand has been relatively steady within the building materials segment. Management maintained strong demand outlook led by 1) low mortgage rates, b) upbeat outlook on salary increments and hiring in IT/ITES sector, c) continued work-from-home policy for corporate employees, and d) government capex initiatives on improving overall sanitation and drinking water facilities. Cera expects to grow at 1.5-2x of industry revenue growth rate over FY22-24F and maintain EBITDA margin between 15-16%. Chinese imports have continued to be tough due to very high freight rates and non-availability of containers, benefitting national bathware brands/sourcing products locally. Strong pricing power and supportive demand enabled Cera to cumulatively hike prices for sanitaryware and faucets by 25%+ since Aug 2020. The plant utilization has been 100%+ over the past six months and Cera is in the process of finalizing capacity expansion for sanitaryware and faucets.

Valuation and risks

Demand recovery in real estate sector, brand pricing power, net cash balance sheet, strict capital allocation discipline and efficient working capital management are key positives, in our view. We retain our estimates and reiterate ADD rating on Cera with an unchanged TP of Rs6,252 based on 40x FY24F EPS, (~20% premium to five-year mean P/E). Downside risks: employee attrition, extended Covid wave-3, and treasury management.

Financial Summary

	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Revenue (Rsm)	12,114	12,177	14,469	16,567	18,680
Operating EBITDA (Rsm)	1,532	1,514	2,026	2,485	2,839
Net Profit (Rsm)	1,010	941	1,379	1,748	2,053
Core EPS (Rs)	77.6	72.4	106.1	134.4	157.9
Core EPS Growth	(6.0%)	(6.8%)	46.6%	26.7%	17.5%
FD Core P/E (x)	57.87	62.11	42.37	33.44	28.46
DPS (Rs)	13.0	13.0	16.0	20.0	24.0
Dividend Yield	0.35%	0.29%	0.36%	0.45%	0.53%
EV/EBITDA (x)	37.31	36.06	26.66	21.21	18.02
P/FCFE (x)	191.90	1,839.96	76.83	66.39	47.86
Net Gearing	(19.6%)	(46.3%)	(46.8%)	(51.4%)	(56.1%)
P/BV (x)	7.38	6.55	5.79	5.10	4.45
ROE	13.7%	11.5%	14.8%	16.4%	16.8%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)			0.92	0.92	0.91

SOURCES: INCRED RESEARCH, COMPANY REPORTS

3QFY22 earnings call highlights ►

- Volume versus value growth:** Cera's consolidated revenues grew 28% yoy (+6% yoy on like-to-like basis) while price hikes taken ranged between 15-20% over this period. This implied negative volume growth yoy. Management clarified that owing to a wide number of stock-keeping units or SKUs across sanitaryware - 350, faucets – 800, and tiles – 1,100, it was difficult to understand and calculate underlying volume growth in 3QFY22.
- Guidance:** Cera has given revenue growth guidance of 1.5-2x of industry growth and maintain its EBITDA margin between 15-16% over FY22-FY24F.
- Competition:** Large national players like Asian Paints (HOLD rating, TP: Rs3,450), Kajaria (ADD rating, TP: Rs1,375), Astral (REDUCE rating, TP: Rs2,104) and HSIL (Not Rated) have announced meaningful capex plans for expansion in bathware segment. Cera indicated that the addressable market of ~Rs150bn is large enough for organized players to gain share from their unorganised counterparts. Cera does not see any undue pressure on pricing or margins from rising competition.
- Balance sheet:** Net working capital as at Dec 2021-end stood at 60 days of sales, flat yoy. Inventory stood at 66 days while debtors were at 29 days of sales. Inventory was higher than normal as Cera plans to ensure higher availability of products within the trade channel to benefit from higher demand as well as gain market share from competitors suffering from import dependence. Net cash as at Dec 2021-end stood at Rs5.2bn.
- Capex:** Planned capex is unchanged at Rs172m for FY22F. Owing to sanitaryware and faucet plant utilization now consistently being around 100%, the company is in the process of finalizing capacity expansion plans (greenfield and brownfield) for both segments and will announce them soon. Cera is also actively looking at M&A opportunities to increase capacity.
- Tile segment update:** Tile revenue declined sharply in 3Q largely due to intentional decision of focusing only on better product mix and B2C sales, leading to better margins and higher ROCE.

Figure 1: 3QFY22 results snapshot

YE Mar (Rs m)	3QFY22	3QFY21	yoy (%)	2QFY22	qoq (%)	9MFY22	9MFY21	yoy (%)
Revenue	4,045	3,158	28.1	4,033	0.3	10,359	7,859	31.8
EBITDA	666	432	54.2	616	8.0	1,490	880	69.4
EBITDA margin (%)	16.5	13.7	279 bp	15.3	118 bp	14.4	11.2	319 bp
Adj. PAT	432	299	44.5	430	0.5	985	550	79.1
Diluted EPS (Rs)	33.3	23.0		33.1		75.7	42.3	

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 2: 3QFY22 segmental results snapshot

Revenue (Rs m)	3QFY22	3QFY21	yoy (%)	2QFY22	qoq (%)
Sanitaryware	2,144	1,421	50.9	2,065	3.8
Faucets	1,396	884	57.9	1,359	2.7
Tiles	404	758	(46.6)	504	(19.8)
Others	81	95	(14.6)	81	0.3
Sub-total	4,025	3,158	27.5	4,009	0.4

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Actuals vs. our estimates

Rs m	3QFY22A	3QFY22F	Var (%)
Revenue	4,045	3,973	1.8
EBITDA	666	585	13.8
EBITDA margin (%)	16.5	14.7	174 bp
Adj. PAT	432	408	6.0

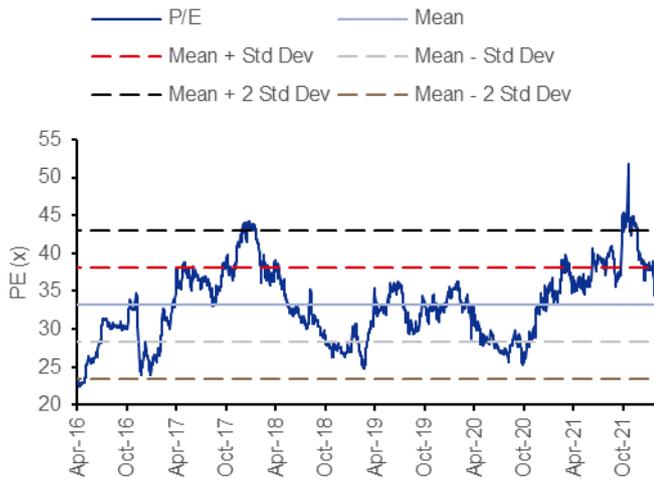
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 4: Actuals vs. Bloomberg consensus

Rs m	3QFY22A	2QFY22C	Var (%)
Revenue	4,045	3,906	3.5
EBITDA	666	575	15.8
EBITDA margin (%)	16.5	14.7	175 bp
Adj. PAT	432	396	9.1

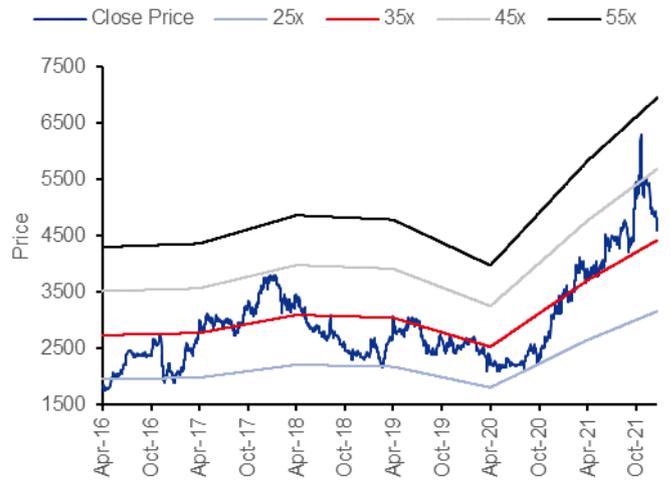
SOURCES: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 5: P/E SD (five-year mean PE)

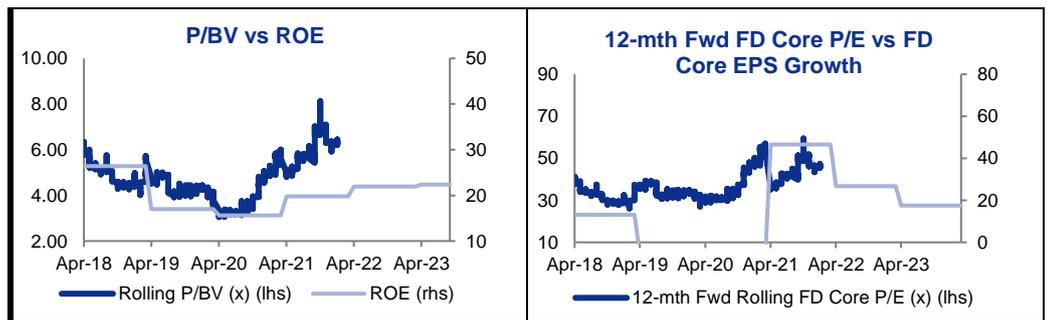


SOURCES: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 6: P/E band



SOURCES: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

BY THE NUMBERS

Profit & Loss

(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Total Net Revenues	12,114	12,177	14,469	16,567	18,680
Gross Profit	6,612	5,909	7,452	8,656	9,779
Operating EBITDA	1,532	1,514	2,026	2,485	2,839
Depreciation And Amortisation	(388)	(396)	(414)	(436)	(460)
Operating EBIT	1,144	1,118	1,612	2,049	2,379
Financial Income/(Expense)	36	99	184	238	313
Pretax Income/(Loss) from Assoc.	1				
Non-Operating Income/(Expense)	46	55	50	53	55
Profit Before Tax (pre-EI)	1,227	1,273	1,847	2,339	2,748
Exceptional Items					
Pre-tax Profit	1,227	1,273	1,847	2,339	2,748
Taxation	(243)	(340)	(462)	(586)	(689)
Exceptional Income - post-tax					
Profit After Tax	983	933	1,384	1,753	2,059
Minority Interests	27	8	(5)	(6)	(6)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	1,010	941	1,379	1,748	2,053
Recurring Net Profit	1,010	941	1,379	1,748	2,053
Fully Diluted Recurring Net Profit	1,010	941	1,379	1,748	2,053

Cash Flow

(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
EBITDA	1,532	1,514	2,026	2,485	2,839
Cash Flow from Invt. & Assoc.					
Change In Working Capital	47	1,316	(657)	(276)	(278)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	16	15	228	277	353
Net Interest (Paid)/Received	79	65	(184)	(238)	(313)
Tax Paid	(504)	(296)	(462)	(586)	(689)
Cashflow From Operations	1,171	2,613	950	1,662	1,913
Capex	(461)	(147)	(340)	(357)	(375)
Disposals Of FAs/subsidiaries	9	6			
Acq. Of Subsidiaries/investments	(351)	(2,313)		(500)	(500)
Other Investing Cashflow	3	30	250	290	351
Cash Flow From Investing	(800)	(2,423)	(90)	(567)	(523)
Debt Raised/(repaid)	(66)	(158)	(100)	(215)	(169)
Proceeds From Issue Of Shares		49			
Shares Repurchased					
Dividends Paid	(411)		(210)	(261)	(312)
Preferred Dividends					
Other Financing Cashflow	(75)	(79)	(66)	(52)	(38)
Cash Flow From Financing	(552)	(188)	(376)	(528)	(519)
Total Cash Generated	(181)	2	485	567	871
Free Cashflow To Equity	305	32	761	880	1,221
Free Cashflow To Firm	270	93	795	1,043	1,352

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Total Cash And Equivalents	2,282	4,814	5,306	6,387	7,772
Total Debtors	2,228	2,095	2,378	2,723	3,071
Inventories	2,430	1,997	2,577	2,950	3,327
Total Other Current Assets	642	475	712	816	919
Total Current Assets	7,582	9,380	10,973	12,876	15,089
Fixed Assets	4,197	4,009	3,939	3,860	3,775
Total Investments	82	82	82	82	82
Intangible Assets	12	8	8	8	8
Total Other Non-Current Assets	392	358	354	354	354
Total Non-current Assets	4,683	4,457	4,383	4,304	4,219
Short-term Debt	410	303	254	206	158
Current Portion of Long-Term Debt					
Total Creditors	953	1,554	1,586	1,816	2,047
Other Current Liabilities	1,742	1,767	2,180	2,496	2,815
Total Current Liabilities	3,105	3,623	4,020	4,518	5,020
Total Long-term Debt	302	327	275	223	171
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	567	542	542	542	542
Total Non-current Liabilities	868	869	817	765	713
Total Provisions	299	303	303	303	303
Total Liabilities	4,273	4,795	5,140	5,586	6,036
Shareholders Equity	7,915	8,925	10,094	11,466	13,139
Minority Interests	77	117	122	128	134
Total Equity	7,992	9,042	10,216	11,594	13,272

Key Ratios					
	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Revenue Growth	(9.9%)	0.5%	18.8%	14.5%	12.8%
Operating EBITDA Growth	(19.6%)	(1.2%)	33.8%	22.7%	14.3%
Operating EBITDA Margin	12.6%	12.4%	14.0%	15.0%	15.2%
Net Cash Per Share (Rs)	120.70	321.79	367.25	458.05	572.30
BVPS (Rs)	608.58	686.23	776.13	881.62	1,010.20
Gross Interest Cover	11.39	11.49	24.45	39.45	62.71
Effective Tax Rate	19.8%	26.7%	25.0%	25.0%	25.1%
Net Dividend Payout Ratio	16.3%	13.2%	11.3%	11.1%	11.4%
Accounts Receivables Days	78.52	64.79	56.42	56.20	56.61
Inventory Days	152.15	128.88	118.94	127.51	128.70
Accounts Payables Days	68.41	72.99	81.64	78.46	79.20
ROIC (%)	16.8%	15.5%	28.7%	33.0%	37.2%
ROCE (%)	14.7%	13.9%	17.7%	20.0%	20.8%
Return On Average Assets	9.8%	9.0%	11.4%	12.9%	13.3%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

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Description:	Excellent	Very Good	Good	N/A	N/A

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Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2021, Anti-Corruption 2021

ADVANC – Excellent, Certified, **AMATA** – Excellent, Certified, **ANAN** – Excellent, n/a, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Excellent, n/a, **AWC** – Excellent, Declared, **AU** – Good, n/a, **BAM** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Excellent, Certified, **BCH** – Very Good, Certified, **BCP** – Excellent, Certified, **BCPG** – Excellent, Certified, **BDMS** – Excellent, n/a, **BEAUTY** – Good, n/a, **BEM** – Excellent, n/a, **BH** – Good, n/a, **BJC** – Very Good, n/a, **BLA** – Very Good, Certified, **BTS** – Excellent, Certified, **CBG** – Very Good, n/a, **CGET** – n/a, n/a, **CENDEL** – Excellent, Certified, **CHAYO** – Very Good, n/a, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COM7** – Excellent, Certified, **CPALL** – Excellent, Certified, **CPF** – Excellent, Certified, **CPN** – Excellent, Certified, **CPNREIT** – n/a, n/a, **CRC** – Excellent, Declared, **DELTA** – Excellent, Certified, **DDD** – Excellent, n/a, **DIF** – n/a, n/a, **DOHOME** – Very Good, Declared, **DREIT** – n/a, n/a, **DTAC** – Excellent, Certified, **ECL** – Excellent, Certified, **EGCO** – Excellent, Certified, **EPG** – Excellent, Certified, **ERW** – Very Good, Certified, **GFPT** – Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Excellent, n/a, **HANA** – Excellent, Certified, **HMPRO** – Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Certified, **III** – Excellent, Declared, **INTUCH** – Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** – Excellent, Certified, **JASIF** – n/a, n/a, **JKN** – n/a, Certified, **JMT** – Very Good, n/a, **KBANK** – Excellent, Certified, **KCE** – Excellent, Certified, **KEX** – Very Good, Declared, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** – Excellent, Certified, **KTC** – Excellent, Certified, **LH** – Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MAKRO** – Excellent, Certified, **MC** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** – Excellent, Certified, **MTC** – Excellent, Certified, **NETBAY** – Very Good, n/a, **NRF** – Very Good, Declared, **OR** – Excellent, n/a, **ORI** – Excellent, Certified, **OSP** – Excellent, n/a, **PLANB** – Excellent, Certified, **PRINC** – Very Good, Certified, **PR9** – Excellent, Declared, **PSH** – Excellent, Certified, **PTT** – Excellent, Certified, **PTTEP** – Excellent, n/a, **PTTGC** – Excellent, Certified, **QH** – Excellent, Certified, **RAM** – n/a, n/a, **RBF** – Very Good, n/a, **RS** – Excellent, Declared, **RSP** – Good, n/a, **S** – Excellent, n/a, **SAK** – Very Good, Declared, **SAPPE** – Very Good, Certified, **SAWAD** – Very Good, n/a, **SCB** – Excellent, Certified, **SCC** – Excellent, Certified, **SCGP** – Excellent, Declared, **SECURE** – n/a, n/a, **SHR** – Excellent, n/a, **SIRI** – Excellent, Certified, **SPA** – Very Good, n/a, **SPALI** – Excellent, Certified, **SPRC** – Excellent, Certified, **SSP** – Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Very Good, Certified, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIDLOR** – n/a, Certified, **TISCO** – Excellent, Certified, **TKN** – Very Good, n/a, **TOP** – Excellent, Certified, **TRUE** – Excellent, Certified, **TTB** – Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Certified, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – n/a, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

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Definition:

Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

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Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.